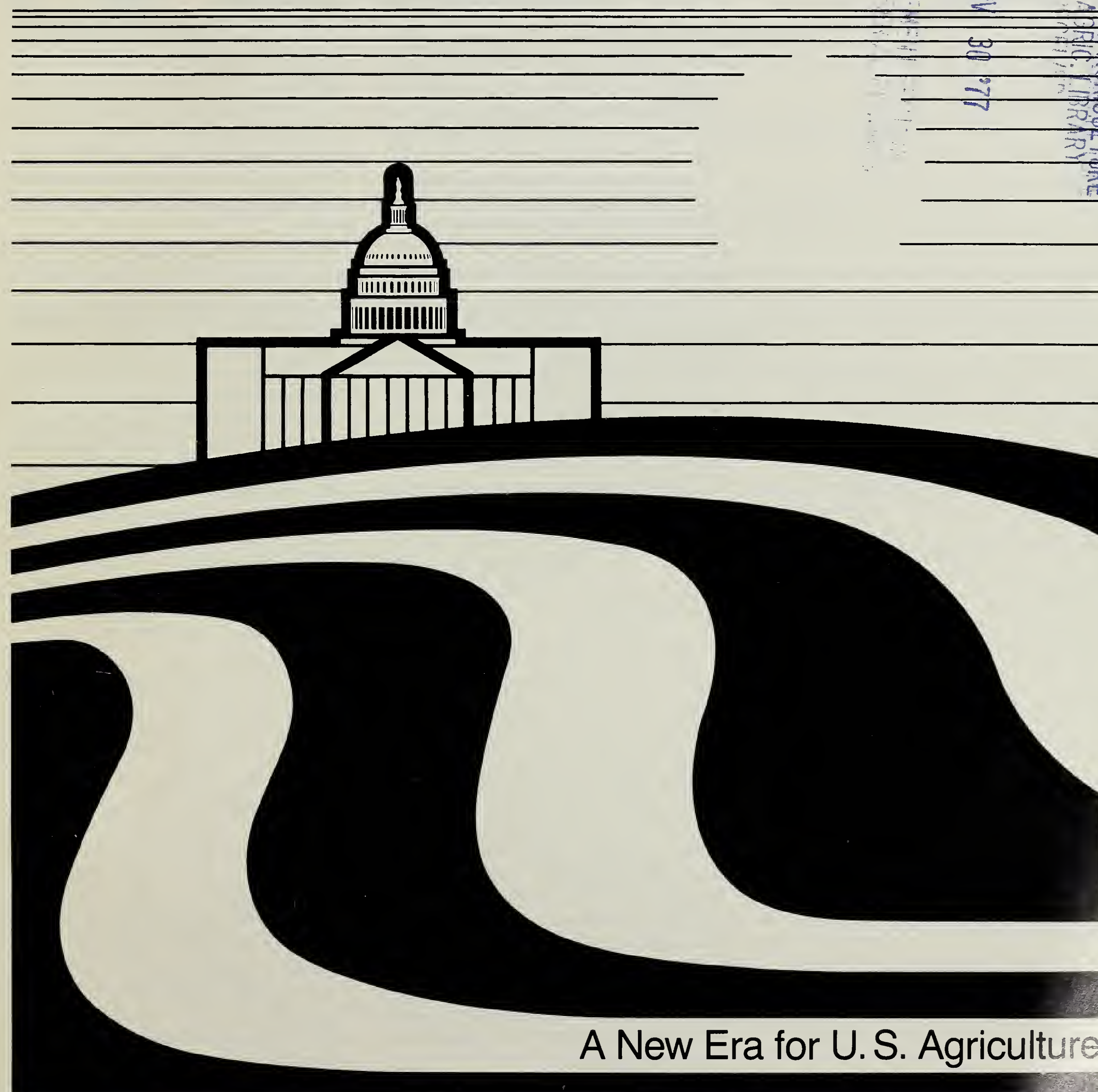
FARM INDEX

U.S. Department of Agriculture
November 1977

Special Issue: The New Farm Law



Outlook

If not in the bin, it's in the bag. This year's output of U.S. crops will topple all records. The credit goes mainly to corn and soybeans. Food grain production is off . . . but it's still the third largest on the books.

The financial ledger for farmers mirrors that situation. Big crops here and abroad are pulling market prices down. They hit a 5-year low in October, soybeans and cotton in particular.

On the livestock end, prices to farmers are stronger than crops, enough to hold total net farm income (includes inventory change) near last year's $20 billion. Also, wheat and feed grain producers are taking advantage of the higher loan rates and target prices guaranteed by the farm law.

Brighter side. Prices of farm inputs are not at a crawl, yet they're not racing either. Fertilizer prices haven't changed much from a year ago, and those for agricultural chemicals have dropped sharply.

Economists claim the relief is due to slackened demand from the farm sector coupled with excess capacity of industry. Farmers can expect a much slower rise in input prices, even some declines, in 1978.

Get it while you can. LP gas for crop drying could cost as much as a tenth more this fall and winter versus last season because of the shortfalls in natural gas. Midsummer inventories of propane were down over 12 percent from the year before.

Diesel and gas are in good shape. Farmers should be able to get all they need next year, assuming a mild winter. They'll have to pay more . . . 5 to 10 percent over 1977. Same goes for the electric bill.

Steady as she goes. Prices at the food market are stabilizing, thanks to large supplies and lower farm prices. Imported foods and fish have eased off, too, coffee especially. Prices have retreated from their midyear highs. All in all, grocery store prices are expected to average about 6 percent more than last year.

Where the food dollar goes. Economists predict that American consumers will spend about $180 billion this year for foods produced on U.S. farms. Only $56 billion will end up in farmers' pockets. The rest will go to the marketing chain.

Hikes in the marketing bill will again account for most of the rise in consumer food spending in 1977. However, marketing's share of your weekly grocery tab isn't growing as fast as in recent years.

The marketing bill—transportation, processing, and distribution—will grow 6 or 7 percent from 1976's $116 billion. Whereas, in 1974 and 1975, it mounted 10 percent.

Labor costs come in for nearly half of the marketing tab. They increased more slowly this year. Increases for first half 1977 were only two-thirds those of a year earlier.

World granary. Grain stocks are building around the world, and that means more downward pressure on international prices. Last year, U.S. farms had half of world trade.

World grain stocks grew 40 percent last season, and they're expected to be up again at the end of 1977/78. Most of the buildup will happen in the U.S. The Soviets will also be getting their share. Their current harvest is forecast a shade below the record 1976 crop.

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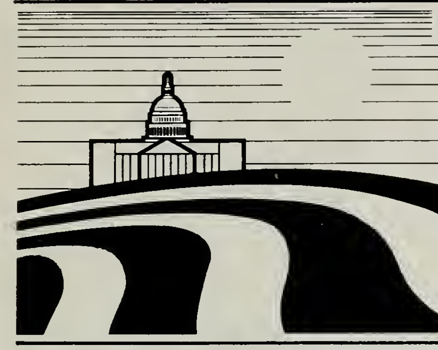
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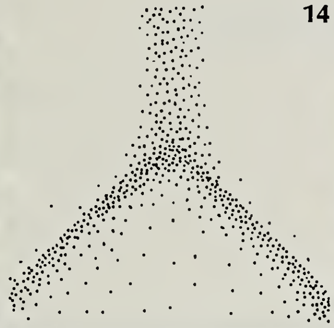
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Features

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A New Era for U. S. Agriculture

Almost every facet of U. S. agriculture is affected by the Food and Agriculture Act of 1977. This special issue of *Farm Index* offers an economic perspective of this landmark legislation.

The Food and Agriculture Act of 1977, recently made into law, features generally higher price supports and more generous loan programs on major commodities.

The act replaces the 1973 Agriculture and Consumer Protection Act, expiring at the end of this crop year.

Users of food stamps, too, will find some changes, at least for the 4-year life of the act, 1978-82.

Boosted price supports, according to legislators, reflect production costs that rose rapidly following enactment of the 1973 law. The intent, they say, is to protect farm producers from a few of the vagaries of the marketplace, while assuring adequate supplies of food and fiber at home and for customers abroad. Most of the price adjustments affect crops next year and after, but in some cases the 1977 harvest is involved.

Free stamps. On the food stamp front, Congress and the Administration are seeking to tighten the program by limiting eligibility in some new ways. Also, benefits to the Nation's lowest income individuals and families are increased, with food stamps now to be issued without charge to virtually all qualifying families. Under current law, these families are required to buy food stamps, with the cost varying with the income level.

The act itself is divided into titles:

Title I: *Payment limitations.* Most farmers who receive Government payments can look forward to higher maximum limits on the amounts paid. Ceilings are raised, and other changes made regarding eligibility for payments.

Title II: *Dairy and Beekeepers.* Dairy farmers will find important changes in the way their milk support prices are calculated. Computations will be made more often, and higher support levels are ordered. Also in this title are dairy and beekeeper indemnity programs, and new ice cream standards.

Title III: *Wool and Mohair.* Changes in these programs are fairly small: Title III simply extends the 1954 National Wool Act until December 31, 1981, requiring USDA to provide supports for wool and mohair. Not everything stays the same, though: Support rates for shorn wool are boosted to 85 percent of the formula rate. They're effective for the marketing years beginning last January 1, through December 31, 1981.

Titles IV and V: *Wheat and Feed Grains.* Among the more complicated sections of the act, these titles set target prices, loan rates, and program acreage authority, while detailing set-aside authority and disaster programs.

Title VI: *Cotton.* The old cotton acreage allotment system has been scrapped, and replaced with a program that ties all benefits to planted acres — treatment comparable to wheat and feed grains programs.

Title VII: *Rice.* Except for three provisions—target prices, loan rates, and disaster payments—this section is unchanged from the 1975 Rice Production Act. (Rice payment limitations were altered in Title I.)

Title VIII: *Peanuts.* For the first time in many years, Federal peanut programs are contained in an omnibus farm law. A new peanut program begins with the 1978 crop.

Title IX: *Soybeans and Sugar.* Considered a "nonbasic" commodity in past years, a mandatory loan and purchase program was not mandatory for soybeans. It is now, though, and the Secretary of Agriculture is required to establish such a program for 1978-81 soybean crops.

As for sugar, a price support and purchase program for 1977 and 1978 crops of sugarcane and sugar beets is established. Support prices are not to exceed 65 percent of parity, and may not dip below 52.5 percent. The smallest sugar support price allowed is 13.5 cents a pound of raw sugar equivalent.

Title X: *Miscellaneous.* This catch-all section includes: a special grazing and hay program for wheat acreage; the addition of filberts to the 16 other commodities already included in the Agricultural Marketing Agreement Act of 1937; set-aside contract authority for wheat, feed grains, and cotton; and the rules for the American Agriculture Protection Program, which provides additional price protection to farmers through the Federal loan rate, in the event international trading is suspended.

Titles XI, XII and XIII include grain reserves, the Food for Peace Program, and food stamps, respectively.

Title XIV: *National Agricultural Research, Extension, and Teaching Policy Act of 1977.* An act within the act, this title covers the purposes, responsibilities, and scope of not only the Secretary of Agriculture, but the Department as a whole.

Also included are research programs, extension services, certain advisory boards, and the Joint Council on Food and Agricultural Sciences, along with library services and other research and extension functions.

Small farm research and extension, land-grant college funding, solar energy research, grant programs, and other facets of USDA business are included.

Titles XV-XVIII include rural development, Federal grain inspection, wheat and wheat foods research, and authorization for USDA advisory committees.

New rules needed. Each section was written separately, even though there were proposals in Congress to simply extend existing legislation.

Congress accepted the need for a new rule book. Without it, Federal farm programs would expire. For commodities, this would mean a reversion to "basic legislation," or permanent law. The problem with that is the age of the basic legislation—much of it was written over 20 years ago. Changing times have made much of that law obsolete.

A similar problem comes up if current law is simply extended for a time, say 1 year. Most of the current law was written in 1973. Since then, on many fronts, the world and domestic situations have changed dramatically. For example, the 1973 act would no longer provide adequate income protection to American farmers, because it was written at a time when farm inputs and product prices were lower.

An eye on the purse. In writing the new act, and nursing it through the legislative process, lawmakers for the first time used the Congressional budget-writing process. The process, used for other legislation in 1976, acted as a spur to legislators to finish a new law, rather than extend the current act or revert to basic legislation.

The budget procedures were designed to give Congress more control over the Federal budget, imposing several deadlines on Congress. For example, by March 15 of this year, committees and joint committees of Congress sent their reports on the projected size of spending and revenue programs under their jurisdiction to the respective House and Senate Budget Committees.

"Be it resolved." By May 16, both houses had completed action on a resolution that set spending and revenue targets for the next fiscal year.

By September 15, a second resolution was passed by both houses. This one, in addition to listing an overall spending and revenue level, tells individual committees what their share of that overall level will be. And, while the first resolution of both houses targeted spending levels, the levels in the second resolution are final, and laws passed later must be written so that expected spending will not exceed the total.

Besides setting deadlines, the budget-writing rules within Congress require detailed projections for spending and revenues 5 years in the future. It is here that the budget process is confronted with difficulties, since agricultural program costs depend on so many variables.

Look to the future. When Congress budgets outlays for agriculture, it is, in effect, estimating future market conditions. Moveover, Congress seeks to replenish Commodity Credit Corporation coffers for losses or payments already made, while estimating future losses.

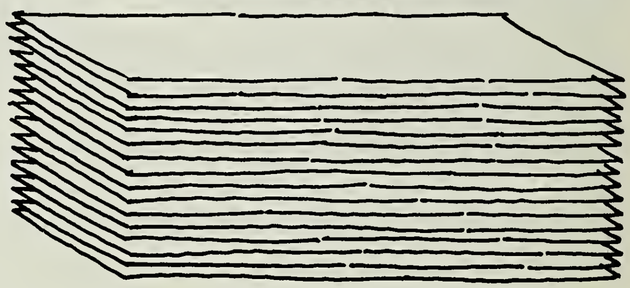
What this all means, then, is Congress must plan its agricultural programs carefully because little spending control can be exercised over farm programs through budgeting once laws are enacted and yearly programs announced.

The best opportunity Congress has —although not the only opportunity —to maintain control over agricultural programs is through legislation, such as this year's farm law. In line with the intent of the budget process, the new farm law includes detailed planning for future years, and takes into account the expected market effects of the legislation.

In this issue, *Farm Index* editors rely on the ERS experts—many of whom worked with the writers of the legislation—to explain and interpret the Food and Agriculture Act of 1977. This history-making law may well change agriculture's course in America for the next several years.

[Based on special material from Alan S. Walter and James Johnson, Commodity Economics Division.]

A Bill Becomes Law



Considering its size—144 pages of legislation covering nearly every aspect of Federal agriculture programs, plus food stamps—the new farm law was approved by Congress in jig time.

One of the major bills, S. 275, was introduced January 18 in the Senate. During ensuing weeks, several House bills were introduced, among them H.R. 7171. This became the basis for the bill that finally was approved by the House, and most of the language in it actually came from actions by House agriculture subcommittees.

After committee hearings in both houses, the legislation was passed, first in the Senate, later in the House.

Since the bills differed markedly in language and cost, a conference session was necessary to mold one bill from the two versions. That committee, made up of members of both houses, reached a compromise and sent the bill—now known only as S. 275—back to the floors, where it was finally approved September 9 in the Senate, and a week later in the House.

At that point, S. 275 was still not law. It needed the President's okay, and he gave it September 29.

The Impact on Commodities

TITLE I

Payment Limitations

Most farmers receiving Federal payments can look forward to a substantial increase in the maximum dollar amount they may be paid.

Payments limitations will stay the same for only the 1977 total wheat, feed grains, and cotton payments. The limit is $20,000, with payments for resource adjustments, public access, loans, or purchases not counting against the total.

Under the 1973 act, disaster payments were figured in. They counted against the total received and could severely limit the deficiency payments a farmer could accept.

The new act changes the situation for crop years 1978 and beyond. Disaster payments are not counted against the total. Likewise, payments for certain resource adjustments and public access for recreation are excluded.

Limits will rise. The payments limitation will rise each year until 1980, starting with the next crop:

- 1978 wheat, feed grains, and upland cotton, limit of $40,000.
- 1978 rice, limit of $52,250, 5 percent less than 1977.
- 1979 wheat, feed grains, and upland cotton, limit of $45,000.
- 1979 rice, limit of $50,000.
- 1980 and 1981 wheat, feed grains, upland cotton, and rice, limit of $50,000.

Deficiency payment rates are determined by the difference between the target price and the higher of the national weighted average market price or the loan level.

The impact of corporate payments. Who should receive these payments is an important question, and Congress is addressing it. A study has been ordered on whether corporate and a few other nonfamily farms should be denied payments, thus discouraging nonfamily farming. The study, to be carried out by USDA, is to be completed with a report to Congress by January 1, 1979, and will assess the impact on program participation and production.

The same study will assess the impact of denying payments to tenant farmers on land owned by corporations or other organizations otherwise excluded.

The study will identify the affected producers, first by telling Congress how many they are, and second by telling who they are.

Preserving the Homestead

Family farms are given a boost by the new farm law, with some of the strongest language of the act.

Legislators wrote, "Congress firmly believes that the maintenance of the family farm system of agriculture is essential to the social well-being of the Nation and the competitive production of adequate supplies of food and fiber." Lawmakers went on to say that a significant expansion in nonfamily, large-scale corporate farming would be "detrimental to the national welfare."

The new law further explains the intent of Congress, saying that legislators do not want programs administered in a manner that would put family farms at an unfair economic advantage. On the other hand, Congress does not intend for agricultural programs to be administered exclusively for family farm operations.

Lawmakers want better information about family farms, and USDA will be the primary source of information. By July 1 of each year, a report will be submitted to Congress, with current information on trends in family farm operations, including national and State-by-State data on nonfamily farms.

Also, the Secretary of Agriculture is to include in that report how existing programs are being administered to enhance and strengthen family farms; how Federal laws affect nonfamily farms; and how Congress may further support family farming.

All this is in addition to a new study that will determine the effect that stopping Federal payments to nonfamily farm corporations would have on American agriculture.

TITLE II

Dairy and Beekeeping

Important changes are in the dairy portion of this title. The milk support program has been altered, reflecting recent rapid increases in milk production costs.

Among the most significant of these changes is the support price calculations. From now until March 31, 1981, the Secretary of Agriculture will determine the support price twice yearly, instead of once. In this way, account of production costs can be given more accurately, reflecting changes that may occur during the semiannual period.

The minimum price support for milk in relation to parity is changed, too, although the basic concept of price parity remains. Until March 31, 1979, the support must be offered at a level between 80 and 90 percent of parity.

A parity definition. Parity is the product price that has the same purchasing power as in the base period, 1910-14. In recent years a new wrinkle has been added: Milk support prices, designed to keep farm prices close to parity, now are adjusted to reflect changes in the relative values of all farm crops. Over the years, some crops have become more important to the farmer and the marketplace, some less so. The newer adjustments take these shifts into account.

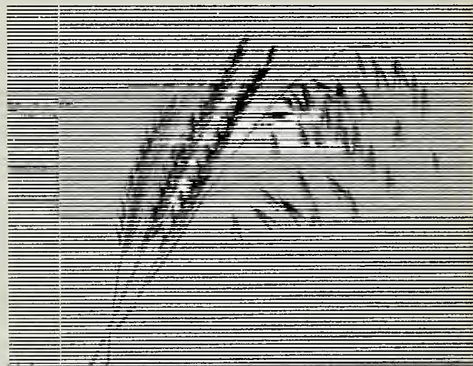
Further adjustments of the milk support price are also authorized. The Secretary may make quarterly alterations, to reflect any substantial changes in the parity price index.

Fallout protection. Congress has also included in this law an umbrella meant to protect the farmer from fallout—literally. If nuclear fallout or radiation, or chemical residue, strikes a dairy herd, the Government may order the milk from that herd off the market. If that happens, farmers will receive Government payments for that milk, or cows producing the milk if they are lost.

The law also calls for new standards for ice cream—important regulations, considering each American consumes an estimated 19 pounds of ice cream a year. The new standards, still being written by USDA, will specify solids, weight, and whey content necessary for ice cream to meet USDA standards. In no case may the content of milk solids not fat be less than 6 percent. And, whey can't, by weight, be more than 25 percent of the milk solids not fat.

As for beekeepers, their indemnity—insurance—program continues unchanged. This authorizes payments to beekeepers, who, through no fault of their own, suffer losses of honey bees as a result of the use of pesticides near the hives.

TITLES IV & V



Wheat and Feed Grains

Covering the Nation's largest, most valuable crops, these titles boost deficiency payments to growers, increase loan rates, and detail set-aside and disaster payment authority.

Ranging over such a wide territory is no small task. It was tackled so that mounting grain surpluses that have reached record levels could be dealt with, while the plight of the farmer is recognized: Even though production costs are escalating, grain prices have generally been tumbling because of the large world grain supply.

The new law continues some programs begun in the 1973 act, such as the dual commodity price support system. Income support is provided through the target price system, which guarantees eligible producers a direct payment if farm prices received fall below established target prices.

Nonrecourse loans. The nonrecourse loan program is still the vehicle for providing price supports. A nonre-

course loan allows the producer to borrow, using his grain as collateral. The producer has the option of forfeiting the grain instead of repaying the loan. The nonrecourse program serves to set a price floor and provide a credit source for farmers, which aids in the orderly marketing of grain.

Price and income supports, of course, still revolve around target prices and loan rates. For 1977-crop wheat and feed grains, amounts are adjusted somewhat from what was announced in the 1973 act.

For 1977-crop wheat, minimum loan levels stay the same as previously announced—$2.25 a bushel. Target prices are raised to $2.90 in 1977 and $3.00 or $3.05 in 1978, depending on whether wheat production is above 1.8 billion bushels. The higher target will take effect if the 1.8 billion is not reached; the lower level will apply if it's reached or surpassed. The minimum loan rate in the law for 1978-81 is $2.35.

Special lower levels. That amount will hold unless a special provision in the legislation is applied. It allows a lower level under certain circumstances, such as: The price support for the next marketing year may be dropped by up to 10 percent if the average market price does not exceed the loan level by at least 5 percent. However, the loan level may not fall below $2, regardless.

The other grains all hinge on corn support levels. The Secretary of Agriculture has the option of adding a target price for oats and barley, but one is mandated for grain sorghum. All these targets are to be set with relation to corn. And corn levels are rising.

They'll be $2 for both loan level and target price for the 1977 crop. The minimum loan for 1978-81 will remain at $2, unless the Secretary drops the price support loan level. The law permits a maximum drop of 10 percent in one year, if the national average price received by producers is not more than 105 percent of the current year's loan. The level may never go below $1.75. (The maximum loan level for wheat is 100 percent of parity. No maximum is set for feed grains.)

Next year's target. Corn target prices for next crop year are not to be adjusted further, though. They've been set at $2.10 a bushel. Again, other grain target prices will be set by the Secretary, at a rate "fair and reasonable" in relation to the target established for corn.

Target prices for wheat and feed grains during 1979-81 are set annually. In those years, the target prices for the previous year's crop will be adjusted to reflect changes in the average cost of production. The amount of the adjustment is limited, however, to changes in variable production costs, machinery ownership costs, and general farm overhead costs.

Under the old law, target price adjustments were based on changes in USDA's Index of Prices Paid for Production Items, Interest, Taxes, and Wage Rates, and changes in the 3-year moving average of individual crop yields.

Discretionary setting. The loan levels for the grains may be raised at the Secretary's discretion. The payment rate for corn will be computed one of two ways. It'll be set at the difference between the target price and the national weighted average market price received by farmers during the first 5 months of the marketing year (if the price is below the target). Or, the rate will be the difference between the target price and the loan level (if the price is below the loan). The Secretary is to use the smaller of the two differences and payments will be made only in the event that the national average price in the first 5 months of the marketing year is less than the established target price per bushel.

If USDA sets the loan levels below the normal minimum—$2 for corn or $2.35 for wheat—emergency compensation will be provided. Deficiency payments will be increased by the amount necessary to provide the same total return the farmer would have received if the loan adjustment had not been made.

Actual plantings count. Under the 1973 act, farmers could receive target price payments even if they did not plant their full allotment. However, the $2.90 wheat target for 1977 will only apply to the acreage actually planted, and in no case to more than the allotment. Farmers who planted less than their allotment will remain eligible for payments based on a $2.47 target for acreage not planted within their allotment.

For wheat and feed grains grown in 1978 through 1981, the total amount of deficiency payments will be determined by multiplying the payment rate, times the farm program acreage, times the farm program payments yield established for

the farm. During these crop years, deficiency payments will be paid on a factored percentage of a producer's acreage planted for harvest, with the allocation factor ranging between 80 and 100 percent of the acreage planted for harvest.

Disaster payments. A reduction in that amount comes when disaster payments are figured in. The total quantity of any crop on which payments would be made to a producer on a farm will be reduced by the quantity covered by disaster payments received.

It's here where there's an inducement for farmers to cooperate with USDA wheat and feed grain acreage programs. Producers who voluntarily reduce their planted acreage from the previous year in line with USDA's recommendations will receive any deficiency payments, if made, on 100 percent of their harvested wheat and feed grain acreage planted for harvest.

If a farmer complies with the set-aside program, but not with USDA's recommendations on planted acreage, payments could be reduced to a minimum of 80 percent of the acreage planted for harvest. The exact percentage of reduction (less than 100 percent) will be determined by dividing the national farm program acreage by the number of acres which the Secretary estimates will be harvested for the crop.

Following set-asides. Farmers who don't follow the set-aside program can't receive disaster payments. A disaster payments program appeared for the first time in the 1973 act, and is repeated in the new law. Prevented planting and low yield disaster payments are continued through the 1979 wheat and feed grain crops.

For these years, prevented planting payments will be made on the basis of either the acreage intended to be planted, or the acreage planted the preceding year, including those acres the farmer was prevented from planting. Which of the bases to be used depends on which is smaller. The payment rate is 75 percent of the farm program payment yield for the farm times one-third of the established target price for wheat and feed grains.

A choice of plans this year. Low-yield disaster payment provisions are effective for the 1977 wheat and feed grain crops, as well as for the 1978 and 1979 crops. Producers of this year's crops may, however, elect to receive disaster payments for low yields computed according to the 1973 act, as many of them have been planning all season.

Low-yield payments for the 1978, 1979, and if elected, 1977 crops will be made to producers if the total quantity of wheat or feed grains harvested on any farm is significantly less than the potential production. The quantity on which payments will be made is arrived at by multiplying 60 percent of the farm program yield times the acreage planted for harvest. The payment rate is half of the target price for the deficit in production below the 60 percent level.

Prevented plantings provisions for 1977 wheat and feed grain crops are not changed in the new law, and will be based on allotted acreage.

TITLE VI

Upland Cotton

The new law makes cotton more akin to feed grains than it's ever been. Legislators have rewritten the cotton program, with all benefits tied to planted acres rather than to the old allotment system—meaning cotton is accorded much the same treatment as wheat and feed grains.

In the end, then, U.S. cotton growers could receive higher Federal payments protection than they've been used to. For example, the 1977 Government-announced target price for upland cotton—unchanged in the new law—was 47.8 cents per pound, as authorized in the 1973 act. Minimum target price for 1978-crop cotton will be 52 cents. For 1978 and beyond, target prices for upland cotton will be set using a new formula.

How it works. The formula will work like this: The upland cotton target price for the preceding crop year will be adjusted to reflect any change in the 2-year moving average of variable, machinery ownership, and general farm overhead costs of production. The escalation formula is

identical to the one used for wheat and feed grains, but this title goes on to provide that the cotton target price for 1979 and later crops cannot fall below 51 cents a pound.

Nonrecourse loan levels for cotton (referring to Commodity Credit Corporation-sponsored loans) beginning with the 1978 crop, will be set in one of two ways: (1) 85 percent of the preceding 4-year period (ending July 31 in the year in which the loan is to be announced) moving average spot market price for Strict Low Middling (SLM 1-1/16 inch) upland cotton at average U.S. locations, or (2) 90 percent of the average adjusted price for the first 2 weeks of October of the five lowest priced growths of the ones quoted for Strict Middling (SM 1-1/16 inch) cotton, C.I.F. (Cost, Insurance, and Freight) Northern Europe.

Announcement deadline. The law specifies that the Secretary of Agriculture will base supports on the lower of the two calculations, and make the announcement by November 1 of the year preceding the crop year. Thus, levels for the 1979 crop will be announced by November 1, 1978.

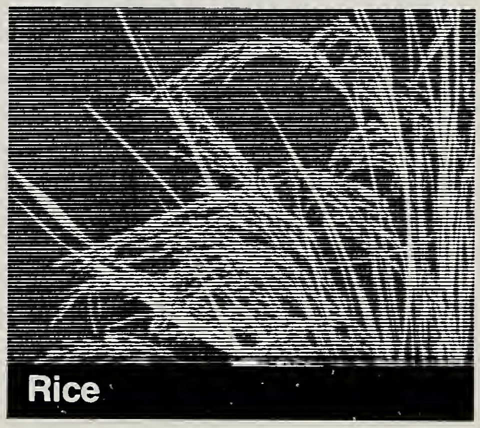
The 1977 law provides for a special limited global import quota for upland cotton. The amount of the special quota is to equal a 21-day domestic mill supply and will be opened up for any month when the average spot market price exceeds 130 percent of the average for the previous 3 years. Cotton entering under these special quotas would have 90 days to arrive in the U.S.

Minimum cotton program acreage is changed in the law, too. It used to be 11 million acres, but the new limit is 10 million.

Protection goes on. Most of the protection that cotton growers have received in the past will be continued. Disaster payments will still be made, and farmers may also receive payments for cotton they intended to plant, but couldn't.

In years when a cotton surplus is expected, the Secretary may require that some acreage be set aside—not planted. The law limits set-asides to a maximum 28 percent of planted acres. Unless otherwise instructed by the Secretary, farmers must use their set-aside land for USDA-approved conservation practices, and not for planting other crops.

TITLE VII



Rice producers have fewer program changes to work with than some farmers. The new farm law generally amends and extends the Rice Production Act of 1975, without drastically changing rice programs.

One of the changes is merely on paper: Rice programs come back under a general farm law. Rice has generally been excluded from omnibus farm laws, and few changes were made in recent years, until the 1975 Rice Production Act was passed. The new farm law takes in that act, and makes a few relatively minor alterations.

Target prices for 1978-81 crops will be adjusted on the basis of the 2-year moving average of rice production costs—variable and machinery ownership costs, and general farm overhead. This procedure makes rice adjustments identical to those for wheat, feed grains, and upland cotton.

New adjustment process. The adjustment process represents a switch.

Under the old system, target prices were adjusted for the change in the index of prices paid by farmers, and were further adjusted for changes in the 3-year national average rice yield (moving average).

Loan levels for rice crops for the next 4 crop years will be set in line with target prices. The ratio of the existing loan level to any new loan level must be the same as the ratio of the existing target price to a new target price. For instance, if the target price was increased by 5 percent from one year to the next, the loan rate would also be boosted 5 percent. The adjustment procedure for rice loans is the same as it was in the 1975 act.

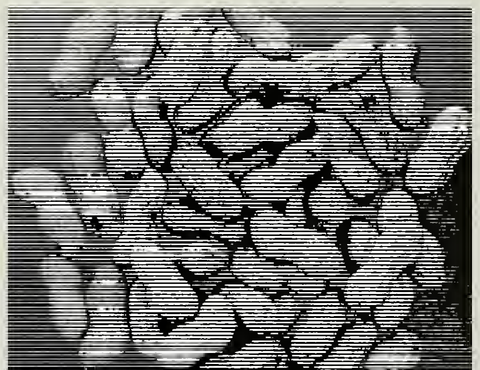
One difference. There is one difference in the lower limits of the adjustment, though. The new law provides that the rice loan can be adjusted downward if USDA determines that the rice loan would discourage exports and leave the U.S. with extra-large stocks. The lowest loan level that's allowed is $6.31 per cwt.

Most other sections remain unchanged, or nearly so, with the new law simply adopting the language in the 1975 act and changing the dates to cover the next 4 years.

For instance, the minimum national acreage allotment will remain at 1.8 million acres, allocated to farms and producers, the same way it has been.

Deficiency payments will continue, too. Payments are limited to those growers who cooperate in the rice programs.

TITLE VIII



Peanuts

It's a new ball game for peanuts. For the first time in many years, peanuts are included in an omnibus farm law, and that means peanut programs must be rewritten.

USDA will announce a national acreage allotment for peanuts no later than December 1 each year, for the following year. The first program will be for the 1978 crop. While the Secretary of Agriculture decides what the allotment will be, Congress has ordered that it not go below 1,614,000 acres.

Decisions on the national quota must be announced by December 1, as well. Quotas cannot be ordered below a certain level. These include on a decreasing scale: 1978, 1,680,000 tons; 1979, 1,596,000 tons; 1980, 1,516,000 tons; and 1981, 1,440,000 tons.

Raising the quotas. The Secretary may increase poundage quotas above the minimum if it is determined that the quota for any one year is too low to meet domestic edible uses, and carryover.

The quota for an individual farm will be set through a formula. For every farm having a farm peanut acreage allotment, a farm yield will be determined. A farm's peanut yield will be equal to the average of the actual yield per acre for the farmer's best 3 years out of the 1973-77 period. If a farm didn't grow peanuts in those years, but gets an allotment later, USDA will assign that farm a yield based on what is typical for that area. The farm peanut acreage allotment times the farm yield equals the base production poundage.

Pounds nationwide. That base is used to determine the farm poundage quota. Each year the Secretary will multiply base poundage times a percentage for each farm, setting the quota for that farm. The result, when totals of all farms are added together, will be the national poundage quota for the marketing year.

The importance of the peanut allotment can't be overestimated. Without an allotment, a farmer is left out of the peanut programs. This is why the Government allows the lease and transfer of peanut allotments, so long as the allotments don't leave the counties where they were assigned originally.

Peanuts grown on the allotments are eligible for a new two-tier price support program. For peanuts produced within the poundage quota, the minimum support rate will be $420 a ton for each of the 1978-81 crops.

Move up a tier. The second tier is for peanuts produced in excess of the amount of quota peanuts that

can be sold, but not in excess of the production limits on a farm's allotment. For these "additional" peanuts, USDA may use loans, purchases, or other operations to provide price support.

To determine the price support level for additional peanuts, consideration will be given to the demand for peanut oil and meal, expected prices of other vegetable oils and protein meals, and the export demand for peanuts. Prices for the "additional" peanuts will be announced by February 15 of each year.

New program directions. All this—setting of quotas and two support prices—marks a radical departure from past programs. Government limits include both an acreage limit and a tonnage for the higher level of support. In past years, acreage has been limited to 1,610,000 acres (but somewhat less than that has been grown), and farmers were eligible for support prices on whatever peanuts were produced on those acres. Over the years, though, peanut yields have risen dramatically, so production has gone up and surpluses have increased. In some years, as much as 36 percent of the peanut crop was left for disposal by the Commodity Credit Corporation.

Under the new system, supplies should balance with market needs, according to Congress.

The plan is reduction. The idea behind the new reliance on tonnage is to eventually reduce the total amount of Federal outlays by discouraging surplus production. Legislators hope quota peanut production—covering the ones receiving the higher support price—will equal the Nation's edible and related needs.

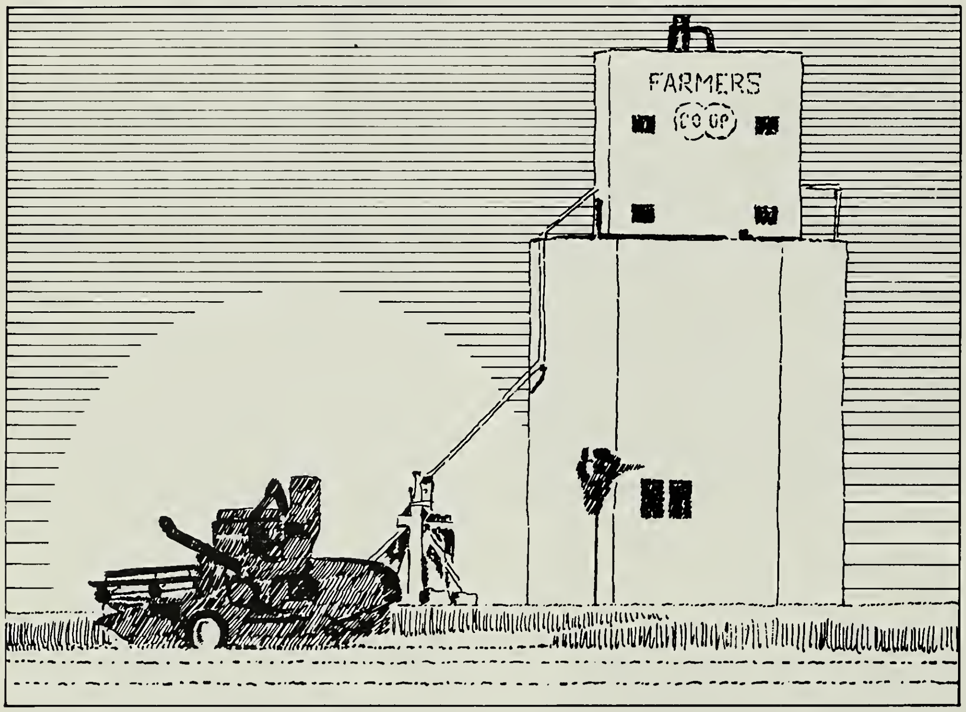
The support price, too, is changed. In most years, the support price has been 75 percent of parity. And since parity changes, the support price changes. For example, the price rose from about \$395 in 1975, to over \$430 this year.

The support price in the new law may be raised above \$420 by the Secretary, after consideration is given to the Index of Prices Paid for Production Items, Interest, Taxes, and Wage Rates, as well as other factors. The support price may not be lowered below \$420; however, it may be adjusted for location and other factors.

Moreover, although \$420 sounds like a decrease from this year's \$430, it's not. In the past, the Commodity Credit Corporation has deducted \$20 a ton from the support price paid to the farmer for such costs as inspection and handling. In the new law, no deductions are made from the support price paid, other than possible adjustments for location and other factors.

[Preceding sections relating to commodity provisions of the 1977 farm law are based on material from James Johnson and Alan S. Walter, Commodity Economics Division.]

The Question of Grain Reserves



With an eye to the possibilities of world famine in the future, the new farm law addresses the question of domestic and international grain reserves.

Though world grain stocks have risen dramatically—to the point that market prices are severely depressed—this situation could change abruptly. Some experts feel that now is the time to rebuild domestic stocks, when it can be done at the least cost to the taxpayer.

The law requires the Secretary of Agriculture to administer a producer-held storage program for wheat and, at his discretion, feed grains, which would be accomplished through an extended price support loan program of 3-5 years duration.

Storage costs and interest rates. As an incentive to producer participation, the Secretary is authorized to pay the annual storage costs of the grain, as well as to waive or adjust interest rates.

The quantity of wheat held under such a reserve shall not be less than 300 million nor more than 700 million bushels. However, the maximum may be adjusted to meet any commitments assumed by the U.S. to an international grain reserve.

Since there is no minimum amount specified for farmer-held feed grains, the Secretary would have the option of implementing either a reseal or an extended loan program for those grains.

Market price. Whenever the national average market price reaches between 140 and 160 percent of the current loan for wheat—or a level determined by the Secretary for feed grains—the Secretary may discontinue the storage payments and charge interest to encourage the producer to redeem the loan and market the grain. If the producer redeems his loan before the average price for wheat reaches 140 percent, he's subject to a penalty as determined by the Secretary.

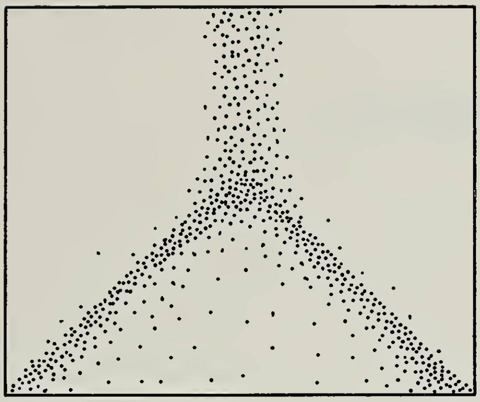
Whenever the national average market price for wheat reaches 175 percent of the loan, the Secretary may recall the loan. Again, the Secretary determines the level at which the feed grains loan will be called.

The Commodity Credit Corporation (CCC) resale price for Government-owned stocks would be set at 150 percent of the current loan whenever a similar kind of grain was held under a 3-5 year extended loan program. Otherwise, the CCC resale price for wheat and feed grains would be 115 percent of the current loan.

Disaster reserves. Disaster reserves—for the purpose of alleviating distress caused by natural disasters—are also authorized. If neither wheat, feed grains, nor soybeans are available through the price support program at locations where they may be economically used to lessen the impact of natural disasters, the Secretary may purchase these commodities and other livestock forages through the CCC facilities.

The Secretary is also authorized to implement an emergency feed program to preserve and maintain livestock in case of natural disaster.

To be eligible the livestock producer must have suffered a substan-



tial loss in feed normally produced on his farm; must not have sufficient feed for his livestock for the projected period of the emergency; and must have to buy more feed than he normally would.

Reimbursement. Producers eligible for this program may be reimbursed for up to 50 percent of the cost of the purchased feed.

The law requires the Secretary to make storage facility loans—with a maximum repayment period of 10 years—available to producers of dry or high-moisture grain, soybeans, rice, and high-moisture forage and silage.

Such loans may not exceed $50,000 and must cover at least 75 percent of the total cost of constructing the facility. Interest rates on facility loans will be based upon the rate of interest charged the CCC by the U.S. Treasury; loan payments can be deducted from any price support loans or purchase agreements made to producers by the CCC.

The legislation encourages the President to enter into negotiations with other nations to develop an international system of food reserves.

Set-asides. The Secretary's authority to provide for cropland set-asides is continued. Set-aside acreage will be based on a percentage of the current year's acreage planted for harvest, with the percentage for the next year's wheat and feed grain crops being announced by August 15 and November 15, respectively.

[Based on special material from James Johnson and Alan S. Walter, Commodity Economics Division.]

USDA Actions

Given the authority by the new farm law, USDA has indicated plans for:

1. A 30-35 million metric ton food and feed grain reserve to be built prior to the beginning of the 1978/79 marketing year, including a proposal to create a special International Emergency Food Reserve of up to 6 million tons.
2. A 20-percent set-aside on 1978-crop wheat.
3. An immediate increase in the loan rates for 1977-crop feed grains.

Let's look first at grain reserves. U.S. supplies are now more than sufficient to enable us to acquire enough reserves to ensure our food aid commitments to less developed countries.

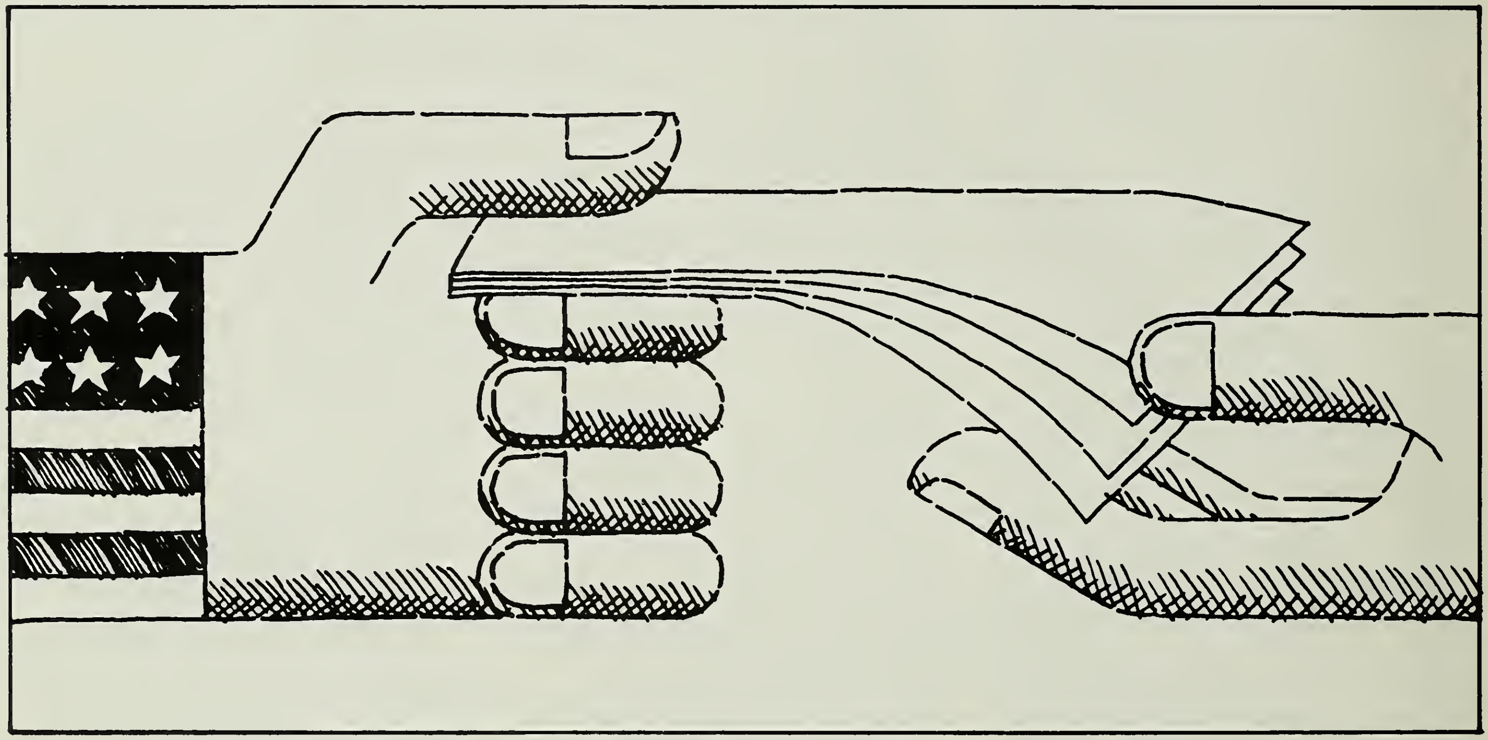
The formation of these strategic reserves and the proposed creation of an International Emergency Food Reserve demonstrate our Nation's commitment to the fight against world hunger.

Major provisions of the wheat set-aside program include:

- The target price will be $3.00 per bushel if the 1978 crop is above 1.8 billion bushels, or $3.05 if it is less.
- The 1978 loan rate will remain at $2.25 per bushel unless the average market price for wheat during the 1977 marketing year is more than 105 percent of the loan level of $2.25 in which case the 1978 loan rate will be increased to $2.35 per bushel.
- Producers who participate in the set-aside program and reduce 1978 wheat acreage for harvest by at least 20 percent from 1977 will be eligible for target price payments and the loan program for the entire acreage. Those who participate in the set-aside program but don't reduce planting by at least 20 percent will be assured target price protection on not less than 80 percent of the acreage and will qualify for the loan program. Those who do not participate in the set-aside program will not be eligible for payments or loans.
- The acreage to be set aside must be 20 percent of the acreage actually planted for harvest (i.e., 2 acres set aside for each 10 acres planted for harvest.)
- Set-aside acreage must have an approved cover crop, such as annual or perennial grasses and legumes or small grains, which is not allowed to mature.
- The total acreage of designated crops included in the "normal crop acreage base" must be reduced by the amount of the 1978 set-aside. Producers will have flexibility within this acreage to plant the crops they desire.
- Basically, the normal crop acreage will be the land that was in designated crops in 1977. The crops to be included will be announced later.
- Producers will have to comply with wheat set-aside requirements if wheat is planted to be eligible for loans, purchases, and payments on crops included in the normal crop acreage.

The loan levels for 1977-crop feed grains will be increased immediately to $2.00 per bushel for corn; $1.90, sorghum; $1.63, barley; and $1.03, oats.

Reforming the Food Stamp Program



In enacting the Food Stamp Act of 1977 as part of the new farm law package, Congress redefined one of the most controversial Federal programs—and one that directly affects 1 out of every 12 Americans.

While there's little opposition to the program's aim of raising the nutritional level among the poor, two somewhat opposing reform forces have emerged since 1974 to attack the way the program operates to achieve that goal:

- Those who are generally associated with the "consumer movement" charged that the program wasn't doing enough for the nutritionally vulnerable, and that regulations and red tape impeded participation by those who were eligible.

- Others, armed with stacks of reports alleging fraud and program mismanagement, called for an overhaul to reduce costs and participation by those not "involuntarily poor."

Shaping the act. As the debate unfolded, both reform forces helped shape the new act.

The magnitude of the program that they sought to revise is great. Established in 1964 for the dual purpose of providing an adequate diet for the Nation's poor, and to help support farm income, the program has grown steadily in both costs and participation. Government expenditures likely exceeded $5 billion during fiscal year 1977, with about 17 million people participating each month.

With that perspective in mind, Congress legislated legally binding guidance in (1) defining who is eligible for program benefits, (2) the way aid will be delivered, (3) the level of aid, and (4) how the aid may legally be used. Here is the gist of those reforms:

1. *Who is eligible for program benefits?*

While income continues to be the key eligibility criterion, the legislation attempts to tighten administration, reduce fraud, and exclude the "nonneedy" from the program.

Poverty level ceiling. Participation is limited to households with a net food stamp income at or below the poverty level. Deductions used to

establish net income have been simplified.

In determining eligibility, legislators struggled to find agreement on the definition of who is poor, and to determine whether work should be required as a condition of eligibility.

The new law excludes households from eligibility if they include a physically and mentally fit person between the ages of 18 and 60 who refuses to register, search for and take acceptable work.

Participants in labor strikes continue to remain eligible. However, the new law tightens criteria that allow students to participate. Needy students must now work at least 20 hours a week or register for such work to qualify for aid.

2. *How will the aid be delivered?*

In the past, the program rules incorporated the philosophy of inkind aid by requiring most participants to pay some cash for a fixed value of coupons. The difference between the amount paid and the amount received was called "bonus." The new legislation eliminates that requirement. Eligible households will only receive "bonus" stamps, but will pay nothing for them.

Household size. Previously, only household size was used to determine the total allotment, with household income determining what portion of that total allotment had to be paid for by the recipient household.

For example, all eligible four-member households were authorized $170 in coupons per month. If such a household had $100 per month net income, they were required to pay $25 for $170 forth of food stamps. If that household's net income reached $500 per month, they were required to pay $140 for $170 worth of food stamps.

Now, each eligible household is to receive free food stamps valued at the difference between the total authorized allotment and 30 percent of its net income. Thus the four-member household with $100 per month net income will receive $140 worth of free stamps ($170 minus $30).

Focus on the needy. The determination of net income is also simplified in a way that, coupled wth elimination of the purchase requirement, should boost benefits for those most in need, simplify administration, and reduce fraud.

A key step in establishing the proper level of aid is to estimate the retail cost of foods which provide a nutritionally adequate diet. That level of aid, coupled with estimates of participation, must also reflect the amount Congress determines that the American people are willing to spend for the program.

Congress, again, adopted USDA's "Thrifty Food Plan" (TFP) as the standard diet for determining the basic level of aid. The TFP is the least costly of the four food plans developed—it contains less meat, poultry, and fish, and more dry beans and grain products than families consume on the average.

Food aid aim. Adoption of the TFP standard reflects the apparent Congressional intent that the Food Stamp Program should be primarily a food aid program rather than an income support, and that it should be a minimum supplement. To underscore the latter point, Congress set ceilings to keep program costs close to anticipated 1977 levels: $5,847 million in fiscal year 1978 (FY 78); $6,159 million in FY 79; $6,189 million in FY 80; and $6,236 million in FY 81.

3. *How may the aid be legally used?*

Advocates of looser restrictions on the use of coupons prevailed in the debate between those who contended that the poor should have the freedom to spend their money as they choose, and those who wanted to ensure that the coupons would be used to obtain nutritious foods only.

Congress rejected all amendments to restrict coupon use to "nutritious" foods.

Uncertain impact. The impact of these new provisions—the first revisions in the program since 1973—on program participation, costs, and diets of the poor is uncertain.

Participation may increase by as many as 2.1 million persons, according to the Congressional Budget Office. But tightened eligibility requirements and greater constraints on asset-held wealth are expected to remove 1.3 million participants with incomes above the poverty line.

As for nutritional intake, the likely increase in program participants should boost total food purchasing by poor families. But elimination of the stamp purchasing requirement may reduce food purchasing effectiveness by increasing the amount of cash available for buying nonfood products.

[Based on special material from William T. Boehm, National Economic Analysis Division.]

Agricultural Aid to the World's Needy

To offer a full perspective, the following analysis includes provisions from both the new farm law—indicated by (FL)—and the International Development and Food Assistance Act of 1977 (IDFA).

Since its passage in 1954, P.L. 480 has served as the framework of American humanitarian efforts to provide food, fiber, and agricultural development to nations around the world.

The program currently is divided into three sections:

- Title I, which provides concessional sales for long-term dollar credit and convertible foreign currencies. About three-fourths of commodity shipments under P.L. 480 now fall under Title I.
- Title II, which covers donations to impoverished people abroad.
- Title III, a new provision which essentially authorizes Title I sales to countries agreeing to use the local currency sales proceeds of food aid for designated self-help programs.

Both the farm law and IDFA extend P.L. 480 assistance for 4 years, with some significant changes to accommodate current policy and conditions. Principal amendments include:

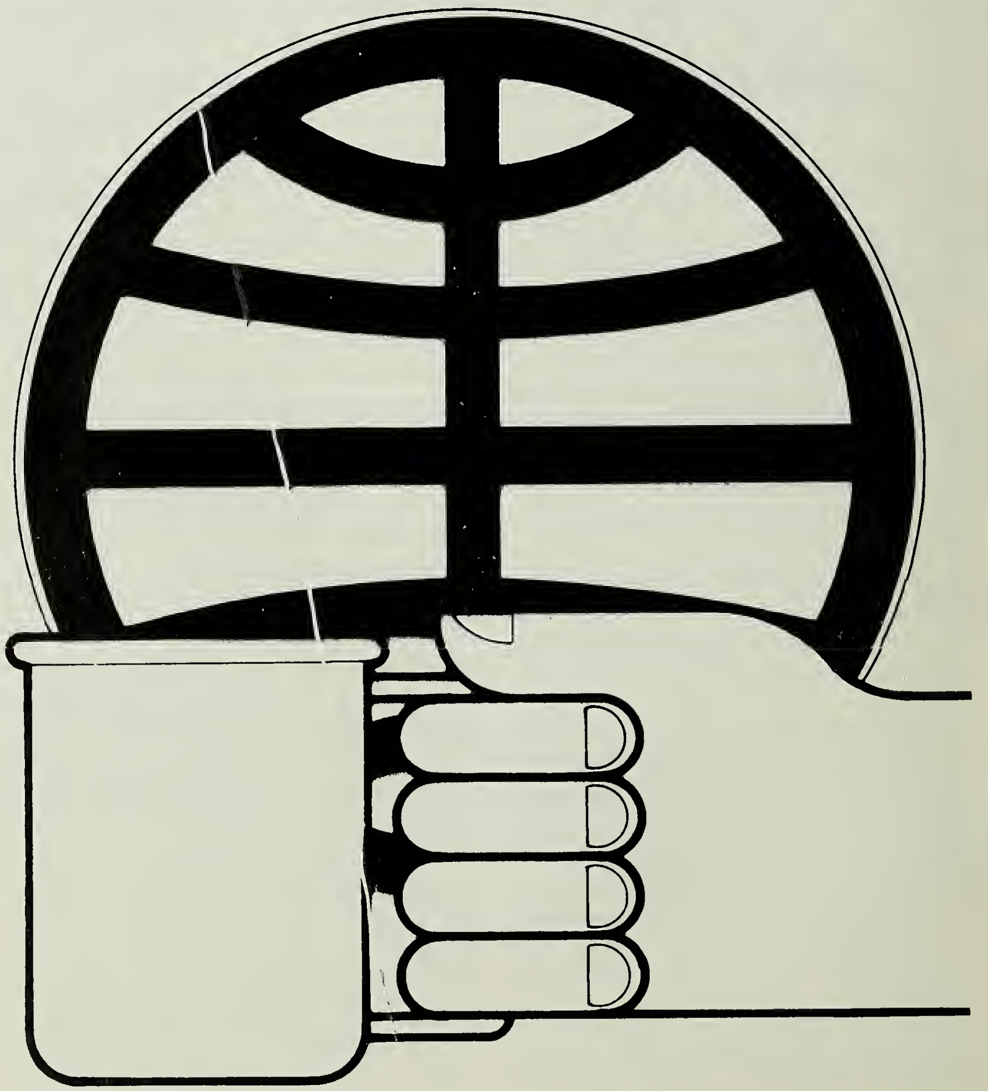
TITLE I

Poverty criteria (IDFA). This amendment adjusts the poverty criteria used to determine eligibility for food aid commodities under Title I sales. While continuing the requirement that at least 75 percent of that aid must go to countries which meet per capita GNP poverty level requirements and are unable to secure sufficient food through their own production or commercial imports, the new law adds flexibility.

Previously, per capita GNP level was fixed at $300 as a ceiling for those in the 75 percent category. The amendment adopts the International Development Association's (IDA) poverty level, which changes periodically to accommodate inflation and other factors. The current IDA poverty level maximum is $550 per capita GNP.

In addition, under the new legislation the poverty requirement can be waived if it is determined that 75 percent of the food aid cannot be effectively used to carry out humanitarian or development purposes of Title I.

Elimination of Sales Restrictions



to Egypt and Countries Trading with Cuba and North Vietnam (IDFA). Provisions that prohibited sales of Title I commodities to Egypt and countries trading with North Vietnam and Cuba are eliminated.

Human Rights (IDFA). Any country that engages in a consistent pattern of gross violations of internationally recognized human rights cannot receive Title I aid, unless it is determined that the aid commodities or proceeds from their sales will be used for programs that directly benefit the needy people of that nation.

High Protein Foods (IDFA). Countries making Title I sales agreements for high protein blended or fortified foods can waive the portion of payment that equals processing costs of the food, if it is determined that the nations have a reasonable potential for transition from food aid to commercial purchases of such food, and if benefits of the waiver are passed on to food aid recipients.

Priority to Food and Fiber Commodities (IDFA and FL). Both acts specify that priority should be given to the sale of food and fiber commodities under Title I of P.L. 480.

TITLE II

Increase in Minimum Tonnage (IDFA). The minimum tonnage of commodities under Title II is increased from 1.3 million metric tons to 1.6 million metric tons until fiscal year 1981, when the minimum increases another 50,000 metric tons. Not less than 1.3 million tons is to be distributed through voluntary agencies.

Increase in Ceiling Authorization (FL). Maximum authorization for Title II transactions is raised from $600 million to $750 million.

Change from CCC Cost to Export Market Value (FL). Only the export market price of price-supported commodities will be charged to Title II, rather than Commodity Credit Corporation (CCC) costs. The difference between market price and CCC cost will be charged to the CCC program.

TITLE III

Food for Development Program (IDFA). This legislation encourages countries to use foreign currency proceeds from the sale of commodities authorized under Title I to increase food supplies, to give the poor better access to food supplies, and improve the well-being of rural poor. Regulations governing Title I apply to this program.

Programs may include rural and agricultural development, nutrition, health services, and population planning. Emphasis is on assistance to small farmers, sharecroppers, and landless farm laborers.

Foreign currency accruing from the sale of Title I commodities that funds such programs will be considered repayment toward the concessional sale.

Such agreements may run from 1 to 5 years. The value of Title III agreements must be at least 5 percent of the value of all Title I agreements in fiscal 1978, 10 percent in fiscal 1979, and 15 percent thereafter. This requirement may be waived for designated reasons. Participating nations must submit annual progress reports, and the aid may be discontinued if it is determined that the agreement is not being kept.

To be eligible, countries must undertake self-help measures to boost production, improve storage, transportation, and distribution of commodities, reduce population growth, have the ability to effectively use the aid according to the agreement, and submit an acceptable multiyear proposal specifying plans to use the aid.

Liberalized Availability Criteria (FL). At times of urgent humanitarian needs abroad, commodities may be authorized for P.L. 480 even if U.S. supplies are limited.

Adequate Storage Facility Requirement/Prevention of Disincentive Effects (IDFA). No commodity will be authorized unless adequate storage facilities are available at the time of exportation to prevent spoilage and waste. Also, distribution of the commodity must not result in a substantial disincentive to domestic production in the recipient countries.

Additional P.L. 480 Evaluations (IDFA and FL). Beginning October 1978, IDFA requires comparative cross-country evaluations of Titles II and III at 5-year intervals. The farm law requires task force review of P.L. 480 within 18 months after the act takes effect.

Encouragement of Establishing International Grain Reserve (FL). The President is encouraged to enter into negotiations with other nations to create an international system of nationally held grain reserves.

[Based on special material prepared by Susan Libbin, Foreign Demand and Competition Division.]

The Farm Law's Impact: An Economic Overview

What is the significance of the new farm law? How will it affect U.S. agriculture? The following analysis by Alan S. Walter, a senior ERS economist, focuses on the implications of the legislation.

THE FOOD AND AGRICULTURE ACT OF 1977

Despite similarities to the 1973 Food and Agricultural Act, the new farm law may have a far greater impact on agriculture as it attempts to deal with the currently depressed conditions for the major grains and with great year-to-year variability that characterizes the industry.

Faced with large grain stocks and depressed farm prices, Congress enacted income and price support provisions that may be far more operative during the next 4 years than in the recent past.

Variable events of the past few years, such as stock drawdown and rebuilding, rapid price fluctuation, and changing weather trends challenged the legislators as they put together the package.

General structure. The 1973 and 1977 acts are very similar in provisions, and the general structure of farm programs is essentially unchanged even though levels and applications differ:

- Farmers continue to be eligible for payments for certain crops if market prices are below an established target level as a measure of income protection.
- Payments for certain crops continue in the event of poor yields due to conditions beyond the producer's control, and for voluntary set-asides if the Secretary so chooses.
- Price supports continue for most grains, and for cotton and peanuts, as well as supply control provisions that may be implemented to discourage overproduction.

Yet, despite such similarities, changes in application of these provisions—and a turnaround in economic conditions—are such that most farmers will consider that the 1977 law puts agriculture in a wholly "new ball game."

New computation. Some of the modifications change the amount of payments or other benefits received. In 1979 (1978 for rice), target prices will be computed based on changes in the cost of production. Previously, average prices paid by farmers for inputs and yields determined target levels.

This new determinant provides protection against increases in input prices, such as for fuel, but it removes land price increases from consideration. Farmers, then, cannot depend on higher target levels caused by an upward spiral in land prices to make their investments profitable, and those with costs significantly above the average should not expect target price payments to bring their returns up to their outlays. But higher targets and new adjustment procedures should give producers a better guarantee that their costs will be covered than they had under the 1973 act.

Feed grains. Production of feed grains other than corn may be boosted by provisions authorizing

the Secretary of Agriculture to extend target price protection to oats as well as barley, and continuing sorghum target pricing. The targets will be set in relation to corn in a fair and reasonable manner and may reflect differences in cost of production.

While new minimum price support rates for grains are much higher than in previous years, they're below the actual prices during many of the recent years. The higher support levels guarantee farmers a higher market price. Another result is that the spread between the target and the price support in the first year or two will be kept to a level about the same as that of recent years. However, the spread could increase later if the target price escalates and if the loan level is held constant. This spread is a critical variable affecting potential Government costs.

Keeping competitive. While attempting to strengthen producers' financial security through raising loan rates, Congress recognized the danger that U.S. commodities might not be priced competitively in international markets—thus depressing exports, increasing surplus stocks, and adversely affecting the U.S. balance of payments. To guard against overpricing, the law allows the lowering of minimum support rates for grain to ensure orderly marketing.

Farmers' income would be protected through increased payments if price supports and, in turn, market prices drop as a result.

The importance of remaining competitive in world trade is also reflected in provisions that at least partially base price supports for cotton and peanuts grown for export on world market conditions.

The transition. The old allotment system, which reflects planting patterns of two to three decades ago, is being scrapped for most commodities. This system was used as a basis for supply controls and making payments. In its place the law substitutes the current acreage planted.

The new system will increase the potential payments to many farmers, but it may be confusing for a while until it becomes understood.

Farmers will have to become acquainted with the new rules right away since set-aside will be applied to some crops in 1978. Because it has been several years since supply controls have been necessary, the adaption to the new system may be less difficult than relying on the old allotment.

Grain reserves. Calls for adequate grain reserves are also acknowledged in the new law. The application of the law encourages farmers to hold wheat and feed grains through payments for storage, and by allowing producers to capture the profit should prices rise substantially. But farmers won't be encouraged to sell the grain held as part of the reserves, unless prices rise by a minimum amount above the loan level.

Reserves held by farmers and others will work to assure adequate supplies when the U.S. crop is poor, or when export demand is heavy. The reserves should also reduce chances of a rapid or great jump in commodity prices.

The peanut program is substantially modified for the first time in three decades. The Government role in determining peanut production and marketing should gradually diminish.

Peanut supports. Some peanuts will be offered price support based on their market value relative to other oils and protein meals, as well as world marketing conditions for peanuts.

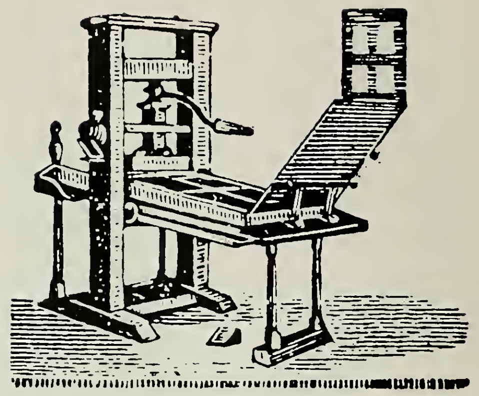
This new provision should increase interest in market conditions among peanut producers, since they must choose the ways to market peanuts which they produce above the quota. Yet, the peanut program will remain important to producers, since an allotment will still be required to produce and market the crop.

Other provisions of the act recognize the importance of disaster protection to farmers. The CCC's disaster protection program has been overhauled to iron out problems and better align protection with producer's needs. As a result, the program is more in line with insurance principles.

Protection. More protection is provided to those who suffer serious losses, and to those who have been overplanting their basic allotments. Less protection will go to those who marginally qualified in the past. Since disaster provisions extend only 2 years, Congress may make further changes that could also affect Federal Crop Insurance, Farmers Home Administration emergency loans, and other programs.

The farm law boosts the payments limitations that producers may re-

Recent Publications



ceive, and extends exemption of those which apply against the maximum to disaster payments beginning with the 1978 crop. The higher payment limitation recognizes that depressed conditions may result in farmers receiving more payments than would be allowed under the 1973 act.

Congressional concern. But Congress is concerned that payments to certain agricultural groups—particularly corporate entities—may not be in the best interest of U.S. agriculture. The legislators require an evaluation of results to determine the effect of excluding these groups from eligibility, as well as the effect of excluding tenants on corporate owned land from receiving payments.

Turning to technology, agricultural research provisions indicate Congressional concern with the importance of technological change, and a general apprehension about the slowing rate of yield increases. The law encourages efforts to improve U.S. agricultural potential.

Uncertainties. While the law strongly addressed the many variables that make agriculture a risky enterprise, its ultimate effect—and effectiveness—may depend to a degree on factors beyond the control of Capitol Hill. Weather, decisions by foreign governments, and the use of discretionary authority held by USDA will also affect the state of U.S. agriculture over the life of the new farm law.

[Based on special material from Alan Walter, Commodity Economic Division.]

Forecasting Retail Values and Spreads for the Market Basket of U.S. Farm Foods. Theresa Y. Sun, National Economic Analysis Division. Tech. Bul.-1578.

Using three different economic models, the author examines the statistical relationships among the retail value, the farm value, and the spread of a fixed sample of food products included in the market basket.

The Changing U.S. Fertilizer Industry. Duane A. Paul, Richard L. Kilmer, Marilyn A. Altobello, and David N. Harrington, National Economic Analysis Division. AER-378.

Chemical fertilizers have become, in some farmers' opinions, the backbone of modern agriculture. Since the 1950's, that industry has responded to increased demand by farmers, while dealing with problems caused by esclating construction costs and shortages of fertilizer manufacturing inputs. These factors and others are discussed in this book.

The Chicken Broiler Industry: Structure, Practices, and Costs. Verel W. Benson and Thomas J. Witzig, Commodity Economics Division. AER-381.

An update of an earlier report on the broiler industry (Marketing Research Report No. 930, published in May 1971), this study assesses the extensive changes in production, processing, and marketing of chicken broilers. In the last few decades, the industry has done an about-face: from a small, widely scattered business, to a large, concentrated, and efficient one.

Farm Population Estimates for 1976. Vera J. Banks, Economic Development Division. AER-383.

Only the West's farm population has risen since 1970, according to this study of population trends in all U.S. geographic regions. Overall, U.S. farm population slipped 15 percent during 1970-76, to just over 8.2 million persons.

State Farm Income Statistics. Farm Income Research Project, National Economic Analysis Division. Supplement to Stat. Bul.-576.

The farm income in each of the States is listed in this publication, back to 1949. (Alaska and Hawaii data, however, go back to only 1960.) Among the charts and tables are the leading States for cash receipts, a ranking of all States by cash receipts, total net income per farm, by States, and other economic information.

Briefing Paper: Food and Drug Administration Proposal to Restrict the Use of Selected Antibiotics at Subtherapeutic Levels in Animal Feeds. Clark R. Burbee and Robert Lenahan, National Economic Analysis Division; and George Allen, Commodity Economics Division. ERS-662.

The Food and Drug Administration's proposal to prohibit the use of certain drugs in animal feeds except for therapy is examined in this report. Also included is a history of the use of antibiotics in feed, the economic impacts expected if current uses are outlawed, and recommendations for future action.

Economic Trends

[1] Ratio of index of prices received by farmers to index of prices paid, interest, taxes, and farm wage rates. [2] Average annual quantities of farm food products purchased by urban wage earner and clerical worker households (including those of single workers living alone) in 1959-61—estimated monthly. [3] Annual and quarterly data are on 50-State basis. [4] Annual rates seasonally adjusted second quarter. [5] Seasonally adjusted. [6] As of March 1, 1967. [7] As of Feb. 1.
Source: U.S. Dept. of Agriculture (Agricultural Prices, Foreign Agricultural Trade, and Farm Real Estate Market Developments); U.S. Dept. of Commerce (Current Industrial Reports, Business News Reports, Monthly Retail Trade Report and Survey of Current Business); and U.S. Dept. of Labor (The Labor Force and Wholesale and Consumer Price Index).

Item	Unit or Base Period	1967	1976		1977		
			Year	August	June	July	August
Prices:							
Prices received by farmers	1967=100	—	186	186	184	180	174
Crops	1967=100	—	197	201	198	182	172
Livestock and products	1967=100	—	177	175	173	179	177
Prices paid, interest, taxes and wage rates	1967=100	—	192	193	204	203	202
Prices paid (living and production)	1967=100	—	188	189	198	198	196
Production items	1967=100	—	193	194	203	201	199
Ratio [1]	1967=100	—	97	96	90	89	86
Wholesale prices, all commodities	1967=100	—	183.0	183.8	194.4	194.9	194.6
Industrial commodities	1967=100	—	182.4	183.8	194.6	195.8	196.9
Farm products	1967=100	—	191.0	189.7	192.7	190.5	181.2
Processed foods and feeds	1967=100	—	178.0	176.7	190.1	187.8	185.1
Consumer price index, all items	1967=100	—	170.5	171.9	181.8	182.6	183.3
Food	1967=100	—	180.5	182.4	193.6	194.6	195.2
Farm Food Market Basket: [2]							
Retail cost	1967=100	—	1,895	1,907	1,938	1,949	1,954
Farm value	1967=100	—	749	748	746	759	756
Farm-retail spread	1967=100	—	1,146	1,159	1,192	1,190	1,198
Farmers' share of retail cost	Percent	—	40	39	39	39	39
Farm Income: [3]							
Volume of farm marketings	1967=100	—	121	116	113	118	120
Cash receipts from farm marketings	Million dollars	42,817	94,326	7,562	7,252	7,427	7,400
Crops	Million dollars	18,434	47,937	3,762	3,364	3,684	3,300
Livestock and products	Million dollars	24,383	46,389	3,800	3,888	3,743	4,100
Realized gross income [4]	Billion dollars	49.9	103.6	—	108.8	—	—
Farm production expenses [4]	Billion dollars	38.2	81.7	—	87.1	—	—
Realized net income [4]	Billion dollars	11.7	21.9	—	21.7	—	—
Agricultural Trade:							
Agricultural exports	Million dollars	6,380	22,996	1,760	1,882	1,749	1,542
Agricultural imports	Million dollars	4,452	10,992	932	1,240	1,015	1,006
Land Values:							
Average value per acre	Dollars	[6] 168	[7] 390	390	[7] 456	—	—
Total value of farm real estate	Billion dollars	[6] 182	[7] 396	395.9	[7] 460	—	—
Gross National Product: [4]	Billion dollars	796.3	1,706.5	—	1,869.9	—	—
Consumption	Billion dollars	490.4	1,094.0	—	1,194.0	—	—
Investment	Billion dollars	120.8	243.3	—	294.9	—	—
Government expenditures	Billion dollars	180.2	361.4	—	390.6	—	—
Net exports	Billion dollars	4.9	7.8	—	−9.7	—	—
Income and Spending: [5]							
Personal income, annual rate	Billion dollars	626.6	1,382.7	1,393.7	1,524.3	1,539.2	1,547.2
Total retail sales, monthly rate	Million dollars	26,151	54,324	54,643	58,390	58,927	59,915
Retail sales of food group, monthly rate	Million dollars	5,759	11,749	11,805	12,589	12,683	12,644
Employment and Wages: [5]							
Total civilian employment	Millions	74.4	87.5	87.8	90.7	90.6	90.8
Agricultural	Millions	3.8	3.3	3.4	3.3	3.2	3.3
Rate of unemployment	Percent	3.8	7.7	7.9	7.1	6.9	7.1
Workweek in manufacturing	Hours	40.6	40.0	40.0	40.5	40.3	40.1
Hourly earnings in manufacturing, unadjusted	Dollars	2.83	5.19	5.21	5.60	5.64	5.64
Industrial Production: [5]	1967=100	—	129.8	131.3	137.9	138.9	138.2
Manufacturers' Shipments and Inventories: [5]							
Total shipments, monthly rate	Million dollars	46,487	98,168	99,078	110,884	109,494	—
Total inventories, book value end of month	Million dollars	84,527	166,587	163,184	173,818	174,772	—
Total new orders, monthly rate	Million dollars	47,062	98,497	97,554	111,702	108,379	—

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